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UNCLAS SECTION 01 OF 04 DAR ES SALAAM 001694

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DEPT AF/E FOR B YODER; AF/EPS FOR J POTASH  
PASS TO USTR FOR C HAMILTON  
ALSO TO MILLENNIUM CHALLENGE CORPORATION FOR G BREVNOV

E.O. 12958: N/A

TAGS: AGOA ECON ETRD TZ  
SUBJECT: TANZANIA: ANNUAL AGOA ELIGIBILITY REVIEW

REF: STATE 163056

**I1. Current AGOA Status: Eligible**

**Country Background Summary**

**I2.** The population of Tanzania in 2005 was estimated at 38.3 million, up from an estimated 36.6 million in 2004. In 2005, Tanzania's GNI was USD 12.1 billion while GNI per capita was USD 340. From October 2005 to October 2006, Tanzania continued its economic reform program, generating a slightly lower economic performance than in the previous twelve months. The Ministry of Planning, Economy and Empowerment projects GDP growth rate for 2006 at 5.9 percent, compared to a growth rate of 6.7 percent for 2005. Growth in the agriculture, tourism, transport and communication sectors fueled Tanzania's economic performance. The Government of Tanzania (GOT) is a stable, multi-party democracy; however, the ruling party dominates both the executive and legislative branches. Tanzania continues to strengthen its market-based economy and eliminate barriers to U.S. trade and investment. The Government of Tanzania is pursuing economic policies to reduce poverty, encourage good governance and protect worker rights. Poverty and corruption remain issues. Tanzania is a Millennium Challenge Compact eligible country. END SUMMARY.

**Comments on Eligibility Requirements**

**II. Market-based Economy**

**IA. Major Strengths Identified**

The Government of Tanzania (GOT) continued to privatize and liberalize its economy.

-- As of December 2005, a total of 196 enterprises were privatized during 2005 and 184 non-core assets were sold the same period. As of June 30, 2006, the Parastatal Regulatory Commission (PSRC) reported a cumulative total of 920 concluded divestiture transactions. In early 2006, a private company took over operations of the Tanzania Railway Corporation concession.

-- The GOT continued its proactive efforts to attract domestic and foreign investors by simplifying FDI regulations. The value of Foreign Direct Investment in 2005 was USD 325.0 million.

-- The GOT undertook tax administration reforms which led to significant improvement in revenue performance. The revenue-to-GDP-ratio increased from 13.3 percent of GDP in 2004 to 13.5 percent of GDP in 2005.

-- Tanzania's infrastructure notably in rural road transportation continued to improve due to routine and spot maintenance, as well as the rehabilitation of existing culverts and bridges.

#### I.B. Major Issues/Problems Identified

-- With the inauguration of President Jakaya Kikwete's administration in January 2006, the Prevention of Corruption Bureau (PCB) renewed its efforts to curb corruption; however, anti-corruption efforts, particularly in the judicial system, continued to advance slowly and to create concerns for foreign investors, including U.S. firms.

-- Tanzania's economy remained vulnerable due to a drought in late 2005 that continued through the first quarter of 2006, affecting both the agricultural and energy sectors (nearly 50 percent of the power supplying Dar es Salaam is hydroelectric). The economy was also slowed by the rising world market prices of oil and other essential commodities.

-- In 2005, both the cost of starting a business and the number of days to start a business continued to decrease, based on the Millennium Challenge Corporation Scorecard for candidate countries. However, there was only a slight decrease in the expense of obtaining a business license, while the cost of electricity remained high. In addition, power rationing has been in effect for up to 12 hours per day in Dar es Salaam and many regions for three to six days per week since late May 2006.

## **II. Political Reforms, Rule of Law, and Anti-Corruption**

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#### I.A. Major Strengths Identified

-- President Jakaya Kikwete was elected to a five-year term and took office in December 2005. President Kikwete has made the elimination of corruption and advocacy for good governance among his top priorities. Tanzania signed the Millennium Challenge Threshold Agreement in May 2005, accepting a USD 11.9 million program which is being implemented by USAID. This two-year program will: 1) strengthen rule of law for good governance; 2) address corruption in the public procurement system; 3) establish a Financial Intelligence Unit; and 4) strengthen the capacity of civil society.

-- In 2006, under President Kikwete's administration, Mainland Tanzania continued on the path toward a more open press, able to report on political, business and economic issues with little fear of retribution.

-- The Anti-Corruption Bill prepared by the Prevention of Corruption Bureau and the Law Reform Commission in 2004 has been approved by the Cabinet and will be submitted to Parliament in November 2006. This bill will strengthen the Prevention of Corruption Bureau and facilitate the prosecution of public officials accused of bribery or corruption.

-- The GOT continued efforts to strengthen the judiciary system which has been historically under-funded. In 2005, the budget received by the judiciary was 55 percent of its allocated budget, an increase from 2004 when the judiciary branch received only 49 percent of its allocation.

-- In coordination with the President's office, the judiciary took steps to promote anti-corruption, organizing seminars to sensitize magistrates and court clerks to corruption issues under the National Anti-Corruption Strategy Program.

#### I.B. Major Issues/Problems Identified

-- The national judiciary is formally independent; however, the judicial branch is often slow and inefficient. Also, occasionally on the Mainland and more often in semi-autonomous Zanzibar, the judicial systems are subject to executive interference.

-- While the new administration is working to augment transparency and good governance, corruption remains one of the major difficulties encountered by foreign investors, including U.S. firms, in Tanzania.

-- Press freedoms in Zanzibar remained restricted, with the media dominated by state-run newspapers, radio and television. However, Mainland newspapers and television/radio programs are available in Zanzibar.

### III. Poverty Reduction

#### I.A. Major Strengths Identified

-- The GOT's Poverty Reduction Strategy--the National Strategy for Growth and the Reduction of Poverty (NSGRP) also known as "Mkukuta"--was adopted in 2004 through a broad participatory process. The Mkukuta focuses on 1) growth and reduction of poverty; 2) improved quality of life and social well being; and, 3) good governance and accountability.

-- The GOT also has developed a broad policy framework, "Vision 2025," which sets targets for economic growth and poverty eradication by the year 2025.

-- In November 2005, Tanzania was selected by the Millennium Challenge Corporation (MCC) as a qualified MCC Compact country. The GOT submitted a MCC Compact proposal to the Millennium Challenge Corporation in August 2006, which is currently undergoing a due diligence study by MCC on economic feasibility and sustainability.

#### I.B. Major Issues/Problems Identified

-- In 2005, Tanzania's GDP per capita income remained low, approximately USD 340. Recent macroeconomic growth has yet to make significant inroads to reduce rural poverty. The economic growth rate has slowed slightly in the first three quarters of 2006 due to electric power shortages and an

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inflation rate of nearly 6 percent.

-- Basic infrastructure in the power and water sectors remains poor; some progress was made in the last twelve months in road and bridge construction. Tanzania's overall trade volume is comparatively low at approximately 22 percent of GDP.

### IV. Workers' Rights/Child Labor/Human Rights

#### I.A. Major Strengths Identified

-- Workers in Tanzania have the right to associate, form unions, and bargain collectively and these rights are well respected.

-- Implementing regulations for the Employment and Labor Relations Act passed by the Union Parliament in April 2004 were being drafted with input from NGOs, trade unions, and employers. The 2004 Act establishes criminal punishment for employers of child laborers as well as forced laborers. Once these regulations are in effect, the Act can become fully operational.

-- Tanzania has ratified the eight core conventions of the

International Labor Organization (ILO), including Convention 182 on the Worst Forms of Child Labor. The GOT recently reformed labor laws in order to make progress under the auspices of the international Program for the Elimination of Child Labor.

-- Tanzania has focused on combating the worst forms of child labor in agriculture, mining, and prostitution. The GOT continues to work well with NGOs to fight child labor.

-- The GOT took steps to improve its human rights record over the last twelve months. In 2005-2006, judicial officers began to accelerate cases in the higher courts.

-- The Minister of State for Union Affairs and the Chief Minister of Zanzibar agreed once the Union Parliament amends the Human Rights Commission legislation to include a review by the Zanzibar House of Representatives, the Commission would function in Zanzibar as well as on Mainland Tanzania.

-- Over the past twelve months, there were no reports of killings in police custody.

#### III. Major Issues/Problems Identified

-- During the year, there were reported cases of police officers' threats, torture or other mistreatment of suspected criminals and prisoners.

-- Prison conditions remained harsh and life threatening. Arbitrary arrest and prolonged detention remain problems.

-- The judicial system in many instances did not provide expeditious or fair trials.

-- Starting in July 2006, the GOT began to send home illegal immigrants (those without Tanzanian resident permits) to neighboring countries. The first phase, ending in October 2006, will be voluntary; thereafter, non-Tanzanians who do not regularize their immigration status will be forcibly expelled. Some cases were also reported of the GOT refusing persons who were seeking asylum in Tanzania.

#### IV. International Terrorism/U.S. National Security

##### IA. Major Strengths Identified

-- The GOT continues to cooperate closely with the U.S. Government in the War on Terrorism.

-- To combat terrorist financing, the GOT continues to fulfill its obligations according to the UN 1267 Sanctions Committee.

-- In 2005, the Ministry of Finance finalized an Anti-Money Laundering bill which has been approved by the Cabinet and will be introduced into the next session of Parliament in November 2006.

##### IB. Major Issues/Problems Identified

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-- None

#### RECOMMENDATION ON TANZANIA'S AGOA ELIGIBILITY

Tanzania continues to be eligible for AGOA. Under President Kikwete, the GOT has shown stronger commitment than ever before to AGOA eligibility criteria. Privatization and reforms to improve the business environment have accelerated, as Tanzania continues on a path toward a fully market-based economy. The GOT made efforts to strengthen the rule of law and protect workers rights in 2006, including improvements in

the judiciary, finalizing the Anti-Corruption bill and the Anti-Money Laundering bill. The GOT worked closely with the Millennium Challenge Corporation to submit its Compact proposal on time, which itself is an indication of Tanzania's commitment to stimulate the economy and reduce poverty.

Finally, the GOT continued to cooperate with the U.S. in the war on terrorism through the training, discussion and implementation of bilateral and regional cooperation on counterterrorism efforts. Important areas for further improvement include timely prosecution of senior officials implicated in corruption, and improvement in Tanzania's human rights record, particularly in regards to trafficking in persons and expanding press freedoms in Zanzibar.

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